

# SOMALIA

## Recent developments

**Table 1** 2017

Population, million <sup>a</sup>	13.8
GDP, current US\$ billion	7.1
GDP per capita, current US\$	511
School enrollment, primary (% gross) <sup>b</sup>	33.0
Life expectancy at birth, years <sup>b</sup>	56.3

Sources: WDI, IMF, UNFPA and Macro Poverty Outlook.  
Notes:

(a) Estimates based on 2013 population estimates by UNFPA and assumes an average annual population growth of 2.9%  
(b) 2017 Somali High Frequency Survey; Life expectancy for 2016 from WDI.

Real GDP growth in 2017 weakened to 2.3 percent due to severe drought but it is expected to pick pace in 2018-19 to 3.1 percent, supported by improved agricultural production, revenue collection, private investment. Over half of the population lives in poverty and experiences multiple deprivations. Key risks to medium term outlook include security, recurrent drought, oil prices, and political and policy uncertainty.

Real GDP growth in 2017 weakened to 2.3 percent (from 4.4 percent in 2016) due to severe drought and sporadic terrorist attacks. Total losses and damages due to drought in 2017 are estimated at US\$3.2 billion with agriculture (mainly crops and livestock) accounting for 60 percent. Private consumption – financed by remittances – continue to drive growth. Economic activity however, is rebounding with growth projected to increase to 3.1 percent in 2018, mainly supported by recovering agricultural production as a result of favorable rainy season, sustained remittances, and donor inflows.

Inflationary pressure from the effects of drought eased in the first half of 2018. Overall inflation declined to 3.1 percent in July 2018 compared to 5.2 percent in July 2017. Crops prices have declined in most regions because of increased production compared to the same period in 2017. The exchange rate remained stable at SoSH 23,099 to the dollar in 2017 due to steady remittances and donor inflows.

Implementation of fiscal policy improved markedly in 2017 but challenges remain. No new arrears were created in 2017 and the deviation between the budget and outturn reduced significantly. Specifically: domestic revenue collection increased from \$113 million to \$143 million in 2017, as government continued efforts to broaden the tax base, enhance compliance, and improve collection capacity. Expenditure remained unchanged: almost

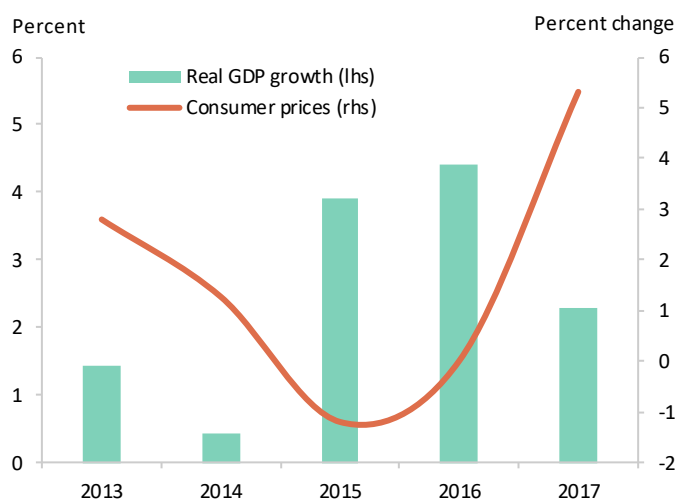
all expenditure is recurrent and sector spending is skewed towards security and administrative services, which together accounted for about 90 percent of the total spending hence crowding out social and economic sectors.

A foundation is being laid for monetary policy and financial sector regulation. Somalia has been working on currency reform under the IMF Staff Monitored Program. The authorities have set currency reform as one of their highest priorities. In the initial stages of reforms, the Central Bank of Somalia (CBS) will replace the existing Somali shillings in circulation with the new currency while strengthening its institutional capacity and developing independent monetary policy instruments and reserve management guidelines. Similarly, efforts to lay the foundation for sustainable financial sector development and strengthen compliance with AML/CFT standards are underway.

The current account deficit rose to 6.6 percent of GDP in 2017 from 6.3 percent of GDP in 2016. Trade deficit rose by 18 percent in 2017, as exports fell and imports rose due to drought. The share of exports in GDP fell from 15.1 percent of GDP in 2016 to 11.5 percent in 2017 while the share of imports increased from 61.9 percent to 66.7 percent. The drought devastated livestock exports with exports of live animals—which normally account for more than 70 percent of export earnings—declining by 75 percent, from 5.3 million animals in 2015 to 1.3 million in 2017.

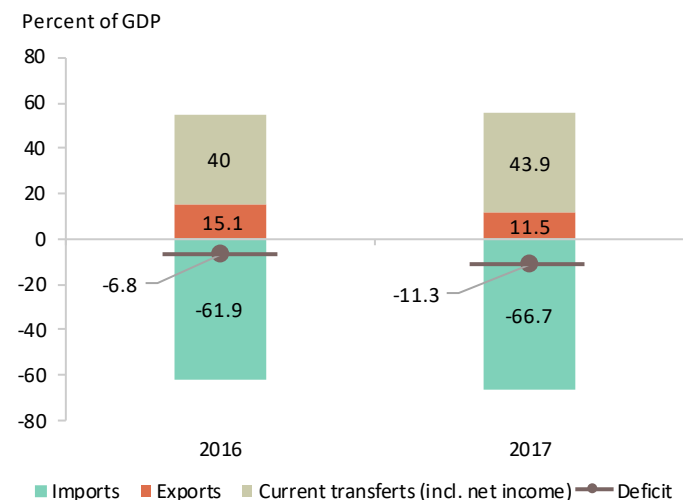
Poverty in Somalia is both widespread and deep. Wave 2 of the Somali High Frequency Survey estimates over half of the

**FIGURE 1 Somalia / Real GDP growth and Inflation**



Sources: World Bank (2018) and IMF (2018).

**FIGURE 2 Somalia / Trade Balance**



Sources: Somalia authorities and estimates by the International Monetary Fund and the World Bank.

population as poor, with poverty being more prevalent in rural areas and IDP settlements. A poverty gap of 29 percent suggests that the consumption levels of many of the poor are far from the poverty line. Somalis often face deprivations along both monetary and non-monetary dimensions. 77 percent of the Somali households experience deprivations in two or more dimensions of deprivation. A large share of the population is vulnerable to climate shocks and food insecurity, driving many to seek refuge in the peripheries of urban settings where they face another set of challenges. Simulated impacts of future drought shocks suggest poverty would further increase and highlights a need to invest in resilience to prevent loss of livelihoods and support speedier recovery.

## Outlook

Real GDP growth is projected to pick up at 3.1 percent in 2018, from 2.3 percent in 2017 (according to the IMF and World Bank forecasts). The 2018 outlook is predicated on maintenance and extension of the security gains achieved, improvements in

weather and agricultural production, a gradual increase in private investment, continued support to the government by development partners, and improved revenue collection. The outlook also presupposes that the livestock sector continues to recover from the effects of the drought. Growth recovery is set to continue beyond 2018 at an average rate of 3.4 percent in the next three years. Rising domestic demand, remittances, and donor inflows and consolidation of peace and security are expected to drive growth in 2019–20.

On the policy side, Somalia continues to build a track record of reforms under the IMF Staff Monitored Program (SMP). The second review of the 2nd SMP in May 2018, noted progress made in building institutions and improving economic performance; improved fiscal management including domestic revenue mobilization; and progress towards currency reform and financial sector development. The authorities agreed a third SMP (SMP III) covering the period May 2018 - April 2019 aimed at maintaining the reform momentum and macroeconomic stability.

Food security has improved in many of the areas worst affected by the 2016/17 drought and continues to improve as

livestock production increases. The Gu harvest in the southern agro-pastoral areas is expected to be above average, further alleviating the humanitarian situation. Although the humanitarian crisis is diminishing due to increase in food production and the response by the government and development partners, sustained humanitarian assistance is needed to fill existing food shortages.

## Risks and challenges

Key risks to the medium-term outlook include both domestic and external. Security challenges including sporadic terror attacks continue to impede economic activity. Other risks that may significantly weigh on growth prospects include higher oil prices (affecting consumption a key driver of growth), delays in implementing structural reforms (due to weak institutional capacity and political fragmentation), and political and policy uncertainty.

**TABLE 2** Somalia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2015	2016	2017 e	2018 f	2019 f	2020 f
<b>Real GDP growth, at constant market prices</b>	3.9	4.4	2.3	3.1	3.7	3.8
Private Consumption (% of GDP)	131.7	132.0	..	..	..	..
Government Consumption (% of GDP)	4.8	5.3	..	..	..	..
Gross Fixed Capital Investment (% of GDP)	8.5	9.4	..	..	..	..
Exports, Goods and Services (% of GDP)	15.6	15.1	11.5	14.6	15.0	14.8
Imports, Goods and Services (% of GDP)	60.6	61.9	66.7	62.9	61.8	61.2
<b>Inflation (Consumer Price Index)</b>	-1.2	0.0	5.3	2.8	2.5	2.5
<b>Current Account Balance (% of GDP)</b>	-4.7	-6.3	-6.6	-6.3	-5.7	-5.6

Sources: World Bank (2018) and IMF (2018).  
Notes: e = estimate, f = forecast.